Insurance Corporation of British Columbia

Service Plan

2012 – 2014

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Insurance Corporation of British Columbia

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Service Plan 2012–2014

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Introduction

Purpose

The Insurance Corporation of British Columbia's (ICBC) 2012 – 2014 Service Plan presents an overview of our three-year plan to fulfill responsibilities for providing vehicle insurance, driver licensing, and vehicle licensing and registration services. In this Service Plan, we set out our performance accountability to the public by describing:

- Where we envision ourselves in three years;
- The goals and objectives we need to achieve to realize this vision; and
- How we define and measure progress on achieving these goals and objectives.

In 2013, we will publish our 2012 Annual Report detailing our progress in achieving the goals set out in this Service Plan. The Service Plan and Annual Report are companion documents and central to the broader accountability framework for Crown corporations. In developing the Service Plan, we have relied on guidance from various sources, including the following:

- The Letter of Expectations between ICBC and government, which can be found on **www.icbc.com**.
- The provincial government's *Crown Corporation Service Plan Guidelines*, September 2011, which can be found on **www.gov.bc.ca/caro/attachments/service_plans/2015/crown_corporation_service_plan_guidelines_2011_14.pdf**.
- The Legislative Assembly of BC's Select Standing Committee on Crown Corporations (SSCCC) in *A Guide to Operations*, April 2003, which can be found on **www.leg.bc.ca/cmt/37thparl/session-5/cc/media/A_Guide_To_The_Operations_(28Apr03).pdf**.

Balancing Accountability and Commercial Sensitivity

We are committed to providing customers and the public with information needed to understand our plans and to evaluate our performance against those plans. This is fundamental to the governance of any Crown corporation.

We compete with other insurance companies in the sale of optional vehicle insurance products in British Columbia (BC). Due to commercial concerns, this Service Plan does not provide specific competitive information pertaining to our Optional insurance business.

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ICBC website: www.icbc.com

Letter from the Chair of the Board

The Honourable Kevin Falcon
Minister of Finance and Deputy Premier
Government of British Columbia

Dear Minister,

On behalf of ICBC's Board of Directors and employees, I am pleased to present our 2012 – 2014 Service Plan.

This Service Plan is prepared under the direction of the Board of Directors in accordance with the *Budget Transparency and Accountability Act* and the BC Reporting Principles. The plan is consistent with government's strategic priorities and fiscal plan as well as with ICBC's mandate and goals. The Board is accountable for the contents of the plan, including what has been included in the plan and how it has been reported. The performance measures and targets focus on aspects critical to ICBC's performance within its operating environment, and have been developed with due consideration of forecast conditions, risk assessments, and past performance. All significant assumptions, policy decisions, events, and identified risks, as of January 19, 2012 have been considered in preparing the plan.

Our Service Plan continues to be guided by our vision to be BC's preferred auto insurer, providing protection and peace of mind. Our overarching corporate goal is focused on our customers. Our strategic direction since the last Service Plan remains unchanged. We continue to be focused on our corporate goal with the objectives of improving customer perception, improving employee engagement, and maintaining financial stability to guide us. This Service Plan outlines how we will achieve these objectives and measures our success.

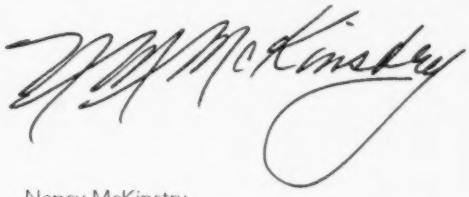
We provide our customers with some of the best insurance coverage in Canada. We've been able to match this level of service and coverage while keeping our rates as low as possible. Since 2007, we've implemented a number of rate decreases to both our Basic and Optional insurance rates. As a result, our customers who purchase both Basic and Optional insurance from us, on average pay approximately the same today for their auto insurance as they did in 2008.

However, in a changing environment, we are facing new pressures. Claims costs are up. We have seen an increase in both the number of bodily injury claims as well as the costs associated with those claims. Our investment returns have also fallen. Like others in the insurance sector, we are negatively affected by the challenging world financial markets.

After four years of not having to increase our rates, we found it necessary in December 2011 to submit an application to the British Columbia Utilities Commission for an increase to our Basic insurance rates for 2012. At the same time, we are decreasing Optional insurance rates for next year. On average, customers who buy both products from ICBC will see an increase of about $27 per year. Whereas the Basic insurance rate increase is in response to the pressures we are facing, the reduction in our Optional rates is something we are able to do, thanks in part to the continued drop in auto crime in BC and a decrease in material damage claims. Going forward, part of our strategy is to remain focused on managing our costs. Our 2011 operating costs have already been reduced by $26 million. The Board of Directors has added further rigor to ICBC's management incentive pay plan by establishing a net income trigger. For 2012 and beyond, if certain net income levels are not achieved, incentive plan payments will either be reduced or not made at all.

In the coming years, we will also remain committed to our business renewal efforts through the Transformation Program. The Transformation Program is critical to our strategy. It will transform our business by making much-needed investments in our aging technology and help put the right systems and business processes in place to support new ways of doing things. It will make things simpler for employees and partners and allow us to better serve our customers by making our services more hassle-free and transparent. This includes improved claims handling, more choice in how customers can deal with ICBC, and streamlined services. It also means listening to customers more, as demonstrated by the province-wide consultation and engagement that will be undertaken, as we consider possible changes to ensure Basic premium rates will be more reflective of driver risk.

Achieving our vision of being BC's preferred auto insurer will depend on our people being engaged, inspired, and confident in their roles and in the company. We will continue to focus on developing workforce capability, capacity, and implementation readiness to realize the benefits of business transformation and meeting the needs of British Columbians and new generations of customers.



Nancy McKinstry
Chair, Board of Directors

Overview of ICBC

The Insurance Corporation of British Columbia is a provincial Crown corporation established in 1973 to provide universal auto insurance to BC motorists. We're also responsible for driver licensing, and vehicle licensing and registration.

Vision

ICBC will be BC's preferred auto insurer, providing protection and peace of mind.

Mission

We deliver quality auto insurance products and services at competitive prices through a knowledgeable team committed to our customers.

Values

Integrity

- Our business is based on trust. We are honest, ethical, straightforward, and fair.

Dedication to Customers

- We exist to serve our customers. We listen actively and are responsive to their needs.

Accountability

- We hold ourselves and each other accountable for our actions and the success of our business.

Caring

- We care about our customers' well-being and ensure they feel supported by treating them with dignity and respect.
- We care about each other's well-being and create an environment that promotes personal growth.
- We care about our communities by supporting road safety programs and being environmentally responsible.

Insurance Services

ICBC is the sole provider of universal compulsory auto insurance (Basic insurance) in the province. Our Basic rates and service are regulated by the British Columbia Utilities Commission (BCUC). We also sell Optional auto insurance products in the competitive marketplace.

Under Basic insurance, private passenger and commercial vehicle owners are provided with up to:

- $200,000 in third party liability protection;
- $150,000 for medical and rehabilitation costs for each injured person;
- $1 million at-fault underinsured motorist protection.

Buses, taxis, limousines, and extra-provincial trucking and transport vehicles have higher mandatory levels. Under Optional insurance, the coverages that we offer include, but are not limited to, extended third party liability, collision, comprehensive, and vehicle storage. For a complete list of our Optional insurance products, please visit **www.icbc.com**.

Auto insurance in BC is based on a full tort system, which means that an injured party is entitled to take legal action against the at-fault party for damages. In addition, the insured injured party has access to accident benefits, including up to $150,000 in medical and rehabilitation expenses and up to $300 per week for wage loss through ICBC Basic insurance, regardless of fault. Our coverage level for medical and rehabilitation expenses is the highest in Canada when compared to any other province with a tort-based system.

In contrast, auto insurance in some other provinces in Canada is based on some variant of no-fault or mixed no-fault and tort systems. This means compensation can be based on predetermined benefit schedules, threshold schemes, and/or limited by caps or deductibles on pain and suffering awards and there may be limited or no ability to sue for additional damages.

ICBC operates as an integrated company that provides significant benefits to customers in terms of costs and convenience. With annual earned premiums of approximately $3.7 billion,[1] approximately $12.9 billion in assets, and approximately 5,300 full-time equivalent employees (including contractors), we are one of the largest property and casualty insurers in Canada. For more information on our products and the auto insurance system in BC, please visit **www.icbc.com**.

[1] Please refer to the Summary Financial Outlook table on page 26.

Loss Management Programs

ICBC invests in road safety initiatives and fraud prevention that help reduce claims costs, giving customers the best coverage at the lowest possible price. We work with a network of partners across the province to deliver road safety programs that help protect customers from risks on the road by preventing and minimizing the impact of crashes and crime. We minimize the adverse effect on premiums caused by fraud through various programs as well as working with law enforcement to prevent, detect, and investigate fraud. Our partners include the Ministry of Justice, the enforcement community, the Ministry of Attorney General, the Ministry of Transportation and Infrastructure, municipalities, community groups, and volunteers. For more information, please visit **www.icbc.com** under *Road Safety*.

Non-Insurance Services

In addition to the Basic insurance and Optional insurance lines of business, we provide driver licensing services, vehicle licensing and registration services, and fines collection on behalf of the provincial government. We refer to the provision of these services as our non-insurance line of business. These non-insurance services are outlined in the Service Agreement between ICBC and the Province, and their costs are funded through Basic insurance premiums.

There have not been any significant shifts from our last Service Plan (*ICBC Service Plan 2011 – 2013*) in relation to our provision of insurance and non-insurance services, and in the delivery of loss management programs.

Key Business Partners and Stakeholders

ICBC delivers its services in partnership with:

- Independent insurance brokers who provide auto insurance products and services to the public and are guided by the agreement with ICBC's broker partners;
- A broad base of suppliers in the automotive industry, guided by performance-based agreements with individual suppliers, and liaison groups such as the Automotive Retailers Association and New Car Dealers Association of BC;
- The medical community to assist injured customers in getting well;
- Government agents and appointed agents that provide driver and vehicle licensing and registration services as well as sell ICBC insurance products in a number of rural communities;
- The Office of the Superintendent of Motor Vehicles and Police Services within the Ministry of Public Safety and Solicitor General, with whom we work together in a number of areas, including driver licensing and road safety;
- Road authorities (e.g., the Ministry of Transportation and Infrastructure) and municipalities to share costs of road improvements that decrease the frequency and severity of crashes;
- Police and enforcement agencies to enhance road safety; and
- A host of diverse community organizations, including business improvement associations and auto crime groups that support the delivery of our safety and auto crime programs.

For more information, please visit the *Business Partners* page on **www.icbc.com**.

ICBC Points of Service

ICBC offers insurance products to approximately 3.3 million policyholders through a province-wide network of approximately 900 independent brokers, government agents, and appointed agents. Our claims-handling services process approximately 900,000 claims per year through our 24-hour, 7-days-a-week, 365 days a year claims contact centre, our province-wide network of 38 claims servicing locations, and the various Express Glass and Repair facilities across the province. Further information about the claims process can be found through **www.icbc.com**.

We also provide driver licensing services through 120 offices, including driver licensing centres, government agents, and appointed agents throughout the province.

We deliver our products and services in partnership with businesses and organizations in communities throughout British Columbia, including insurance brokers, auto repair facilities, and health service providers. Our partners are involved in different aspects of the insurance and claims processes such as the sale of our insurance product, repairs to damaged vehicles, provision of rehabilitation services, as well as management of road safety and loss management programs in conjunction with law enforcement agencies. For further information on our points of service in British Columbia, please visit **www.icbc.com**.

Operating Structure

We operate our business through an integrated business model, providing Basic and Optional insurance products and services. This model provides benefits to our customers such as ease of service and economies of scale, which in turn lead to lower rates. While we operate and manage the company on an integrated basis, from a regulatory perspective we are required to identify or allocate premium revenues and costs as either Basic or Optional. More on the role of BCUC can be found in the next section, *Governance*.

We have re-organized our claims management structure to create more focus on specific types of customer claims, in particular bodily injury claims. We expect these changes in our claims management structure will result in more efficient, effective, and consistent claims handling.

There have not been any significant shifts or changes in our business areas, program delivery or internal operating environment from the previous year.

ICBC does not have any operational subsidiaries.

Governance

ICBC's governance is defined through legislation applicable to all Crown corporations, and legislation specific to the company itself. ICBC's corporate governance is further defined by the Government's Letter of Expectations between the minister responsible for ICBC as a representative of the Government of British Columbia, and the chair of ICBC's Board of Directors as a representative of ICBC. The Minister of Finance and Deputy Premier is the minister responsible for ICBC.

Legislative Framework

As a Crown corporation, ICBC is subject to the *Budget Transparency and Accountability Act*, the *Financial Information Act*, the *Financial Administration Act*, and the *Freedom of Information and Protection of Privacy Act*. Under these provincial laws, we are accountable for making public our strategic plan (i.e., Service Plan) and performance against the plan (i.e., Annual Report). In addition, we are required to provide financial and other information in accordance with the requirements of applicable legislation. In terms of providing Basic and Optional insurance and non-insurance services on behalf of government, ICBC must adhere to a number of acts, including:

- *Insurance (Vehicle) Act*
- *Insurance Corporation Act*
- *Motor Vehicle Act*
- *Commercial Transport Act*
- *Motor Vehicle (All Terrain) Act*
- *Insurance Premium Tax Act*
- *Consumption Tax Rebate and Transition Act*
- *Social Services Tax Act*
- *Offence Act*

ICBC as a Regulated Crown Entity

The BCUC, as the independent regulator for ICBC, approves Basic insurance rates and ensures that our provision of service for our Basic product is adequate, efficient, and reasonable. As we are the sole provider of Basic insurance, this regulatory environment is important for BC, providing customers with an independent and transparent review of our Basic insurance rates and an opportunity to be heard and involved in the review.

The BCUC's regulation of ICBC's Basic insurance business includes regular reviews of financial allocation between Basic and Optional insurance lines of business, revenue requirements for Basic insurance, and Basic rate design. Although the majority of premium revenues and costs are specifically identifiable as Basic or Optional, certain costs are not tracked separately. For those revenues and costs that are not specifically identified as Basic or Optional, a pro-rata method of allocation is used to allocate the revenues and costs between the two lines of business. This method allocates revenues and costs to each line of business based on the drivers of those revenues and costs, the degree of causality, and any directives from our independent regulator, the BCUC. Directives are applied on a prospective basis.

A breakdown of actual revenues and allocated costs can be found in the *Notes to Consolidated Financial Statements* section in our Annual Report. This can be found at **www.icbc.com**. Information on the allocation methodology can be found in BCUC's decisions on our submissions, which can be viewed at **www.bcuc.com**.

We continue to work with the BCUC to achieve effective and efficient regulation that contributes to an open and transparent regulatory process for the setting of Basic insurance rates. More information on BCUC is available on its website, **www.bcuc.com**. ICBC's current regulatory proceedings can be found on **www.icbc.com** under *About ICBC*.

Government's Letter of Expectations

The Government's Letter of Expectations between the Government of British Columbia and the Corporation is an agreement on their respective roles and responsibilities, and on the corporate mandate including high-level strategic priorities, public policy issues, and performance expectations. It is reviewed and updated annually. For specific information, please refer to the section on *Alignment with Government's Letter of Expectations* in this Service Plan.

ICBC Board Governance

The Board of Directors guides ICBC in fulfilling its mandate and sets our corporate direction. The Board and management approve our vision, mission, and values that guide us. The Board sets goals for our performance and these goals and associated objectives are the basis upon which accountability and performance are evaluated. Performance against these goals and objectives is reviewed and reported regularly.

The governance processes and guidelines outlining how the Board will carry out its duties of stewardship and accountability are set out in the *Board Governance Manual*, which is updated annually by the Board's Governance Committee. ICBC's Board complies with the *Board Resourcing and Development Office Guidelines* and has adopted the guiding principles included in the provincial government's *Governance Framework for Crown Corporations: Best Practices Governance and Disclosure Guidelines* (**www.fin.gov.bc.ca/brdo/governance/corporateguidelines.pdf**). For more detail on these governance principles, please refer to the Annual Report.

Further information on Board policies and members is available on our website, **www.icbc.com** under *About ICBC*.

Board Governance Structure — as of January 19, 2012

Board of Directors

Mandate: To foster the Corporation's short and long-term success consistent with the Board's responsibilities to the people of British Columbia as represented by the Government of British Columbia.

Chair: Nancy McKinstry
Vice-Chair: Vacant
Members: Catherine Boivie, William Davidson, Paul Haggis, Doug Horswill, T. Michael Porter, Jatinder Rai, Stacy Shields

Executive Team

Mandate: The primary role of the Executive Team is to lead the management of ICBC's business and affairs, and to lead the implementation of the plans and policies approved by the Board of Directors (the "Board") of ICBC.

President & CEO: Jon Schubert
Members:
Mark Blucher, Senior Vice-President, Insurance;
Ward Chapin, Chief Information Officer;
Steve Crombie, Vice-President, Corporate Communications & Stakeholder Engagement;
Sheila Eddin, Chief Business Transformation Officer;
Fred Hess, Vice-President, Driver Licensing;
Craig Horton, Senior Vice-President, Claims;
Len Posyniak, Vice-President, Human Resources;
Geri Prior, Chief Financial Officer;
Jeff Schulz, Chief Customer & Marketing Officer;
Donnie Wing, Senior Vice-President, Corporate Affairs;
Betty Weigel, Corporate Secretary.

Governance Committee

Purpose: To provide a focus on governance for ICBC that will enhance ICBC's performance.

Chair: Jatinder Rai
Members: Catherine Boivie, Doug Horswill

Audit Committee

Purpose: To assist the Board in fulfilling its oversight responsibilities by reviewing: (i) financial information; (ii) systems of internal controls and risk management; and (iii) all audit processes.

Chair: T. Michael Porter
Members: Paul Haggis, Stacy Shields

Investment Committee

Purpose: To recommend and review investment policy for both ICBC and any pension fund of which ICBC is an administrator.

Chair: William Davidson
Members: Doug Horswill, Nancy McKinstry

Human Resources and Compensation Committee

Purpose: To assist the Board in fulfilling its obligations relating to human resource and compensation policies.

Chair: Nancy McKinstry
Members: Doug Horswill, Jatinder Rai, Stacy Shields

Transformation Program Committee

Purpose: To assist the Board in overseeing the management of ICBC's business renewal efforts ("Transformation Program").

Chair: T. Michael Porter
Members: Catherine Boivie, Jatinder Rai

Strategic Context

Almost 40 years ago, ICBC was created to provide universal auto insurance to motorists in BC. ICBC is the sole provider of Basic auto insurance and driver-related services on behalf of the province. We are committed to becoming a more customer-centric and employee-oriented company, enabling the sustainment of public auto insurance in British Columbia. We remain committed to providing the best possible coverage at the lowest possible price while investing in the business and adopting new technologies to provide the services our customers want.

As we look to the future, the context of the external issues faced by ICBC and the insurance industry has been considered in ICBC's Plan. Growing populations, changing demographics and driving patterns, and new technologies, are influencing what customers want. At the same time, costs associated with repairs, personal injury, and property damage are increasing. We are currently operating in a challenging economic environment.

Industry Context — Property and Casualty Insurance

The insurance industry, which includes both property and casualty insurance as well as life insurance, is affected by external factors including natural disasters, the economy, and regulatory trends, which impact profitability and rate stability. This section provides an overview of recent events that may pose risks to the insurance industry and its consumers.

2010 was one of the worst years on record for catastrophic events and related insurance claim payouts. 2011 is following in a similar vein with a large number of catastrophic events and severe weather conditions both in Canada and globally. Such events impact insurers' profitability, rates and reinsurance capacity. Despite this turbulence, many insurers were able to post positive financial results in 2010.

The Canadian property and casualty (P&C) market stabilized in 2010, with modestly positive financial results for P&C insurers. However, the industry posted its third straight underwriting loss, albeit smaller than in 2009. Underwriting losses are further exacerbated by low interest rates, which negatively impact investment income resulting in substandard returns on capital. Continued underwriting losses and pressures on investment income impair overall profitability and put pressure on capital levels.

Year to date 2011, catastrophic events, premium growth that is less than claims growth in some lines, volatility in investment markets, and global economic uncertainty continue to challenge the industry. The historically low interest rate environment we are currently in is forecast to continue through 2012. This is particularly challenging for insurance companies, which hold large fixed income portfolios; as such, the forecast for investment returns remains weak. Not surprisingly, the P&C industry's Q3 net investment income is down versus the same period last year.[2]

In 2010, some lines of business experienced premium growth in excess of claims growth; notable exceptions to this were the auto and hail lines. Correspondingly, auto insurance loss ratios deteriorated in 2010 versus 2009. The auto insurance industry has been experiencing increasing claims costs and recently has seen an increase in injury claims frequencies in some jurisdictions.

Automobile Insurance in Canada

Automobile insurance is the largest class of insurance in the Canadian P&C industry accounting for nearly half of direct premiums written within the industry.[3] The automobile insurance product offered in each province differs, varying from full tort system in BC, to no-fault or mixed no-fault and tort systems.

Premium growth was strong throughout 2010 as 2009 rate increases took effect. However, premium growth continues to be slower than claims costs — net increase in premiums earned in 2010 was less than half the increase in claims costs.[4] The auto insurance line in BC, as well as in the rest of Canada, has been negatively affected by increased loss ratios.[5]

During 2010/2011, and continuing into 2012, several provinces introduced auto insurance product reforms that, over the longer term, will address rising claims cost trends. Ontario is the largest auto insurance market in Canada and operates under a threshold no-fault system. Ontario's reforms, effective September 2010, were focused on rate stabilization and ensuring affordability. These reforms, as well as an increased vigilance on fighting fraud, are slowly improving bottom lines in Ontario. The above, in combination with recent rate increases, have assisted in improving claims ratios in Ontario Q3 2011 versus Q3 2010.[6]

[1] Canadian Underwriter 2011 online edition, November 28
[2] Canadian Underwriter 2011 Statistical Issue, p. 53
[3] Canadian Underwriter 2011 Statistical Issue, p. 24
[4] MSA/Baron Outlook Report Q4 2010, p. 5
[5] Canadian Underwriter 2011 online edition, November 28

In Alberta, the Alberta Automobile Insurance Rate Board mandated a 5% decrease in premiums as a result of legal challenges resulting in a staying of the cap on minor injuries. Nova Scotia and New Brunswick reviewed their auto insurance systems at the end of 2010 and through the first half of 2011. From its review, reforms in Nova Scotia will be implemented over the next two years and include enhanced no-fault, revised limits, and an optional tort product for minor injuries.

The provincial insurance system reviews and reforms elsewhere in Canada are not expected to directly impact the auto insurance industry in BC. However, BC continues to be affected by economic uncertainty, as well as slower vehicle growth and rising claims costs.

Regulatory Environment

Some of the key regulatory highlights relevant to the insurance industry include the following:

- The *Bank Act* has been revised to prohibit the promotion and sale of unauthorized insurance products by banks on their websites. This is consistent with existing regulation prohibiting this practice in bank branches, and applies equally to Credit Unions, which are now able to operate like banks.
- Implementation of International Financial Reporting Standards (IFRS) has implications on balance sheets and financial metrics. Effective January 2012, changes to the minimum capital test (MCT) will be introduced by OSFI and affect those provinces using this test. ICBC implemented IFRS within its organization effective January 2011 and the 2010 financial statement has been restated for comparative purposes. Our annual report, tabled in May 2012, will contain information on the impact of converting from Canadian Generally Accepted Accounting Principles to IFRS.

Legislative Environment in British Columbia

In addition to the changes in the insurance regulatory environment, ICBC is also subject to the introduction of Bill 3: *Freedom of Information and Protection of Privacy Amendment Act* ("the Act"). The Act amends the access to information amongst government organizations and protection for privacy obligations. The extent of the impact to ICBC is pending finalization of all the compliance requirements within the Act.

Key Strategic Issues and Risks

Looking ahead to 2012 – 2014, we have identified a number of issues and risks that could impact our future performance.

Key Strategic Issues

Understanding and Meeting Increasing Customer Expectations

We operate in a complex and rapidly changing marketplace. Our customers want choice and convenience in accessing our services, including face-to-face, via telephone, the Internet or through social media channels. Our Transformation Program is focused on modernizing our legacy Information Technology (IT) systems to improve our customer and internal processes. In addition, a collaborative process with our stakeholders will help us to deliver this. All of this will require a strong change-management focus.

We must prioritize and allocate our finite resources between our various initiatives while continuing to run our operations.

High-Risk Drivers

High-risk drivers are a serious concern as they cause a disproportionate number of crashes and these crashes are very costly, which in turn affect all of our customers' insurance premiums. In an average year, approximately 200 people are killed and 11,200 are injured as a result of high-risk driving behaviours such as speed, following too closely, ignoring a traffic control device, failing to yield, and improper passing. An additional 125 people die and 2,900 are injured in motor vehicle crashes involving impaired driving. In 2012, ICBC will continue to partner with law enforcement and other stakeholders to raise awareness of the risks and consequences of high-risk driving behaviours.

Economic Environment

The Economic outlook for Canada and British Columbia remains uncertain and could potentially slow as global economic growth retreats on the fallout from the European sovereign debt crisis. The current economic environment, in combination with rising bodily injury costs, is putting pressure on our financial performance.

Key Strategic Risks

ICBC's Corporate Risk Management Framework is approved by the Board of Directors and defines the approach used to assess and manage corporate risk. Consistent with good governance practices and insurance sector practices, ICBC manages risk from an organization-wide perspective.

The Corporate Risk Framework considers both external and internal environments and the risks and challenges associated with each. The framework is used by ICBC executives and Board of Directors to discuss and monitor strategic risks and mitigation strategies. Managing corporate risk is an ongoing process as new risks emerge over time, strategic risks evolve, existing risks change, the external environment changes, and risks may be reduced or eliminated through mitigation strategies or changes in the risk profile.

Our risk management practices encompass management, system, and financial controls designed to provide reasonable assurance that tangible and intangible assets are safeguarded, and transactions are properly authorized and recorded. The controls include written policies and procedures, an organizational structure that segregates duties, and a comprehensive program of periodic risk-based audits by the internal auditors who independently review and evaluate these controls. We continually monitor these internal controls, modifying and improving them as business conditions and operations change. Policies and processes that require employees to maintain the highest ethical standards have been instituted.

ICBC recognizes the inherent limitations in all risk management frameworks and believes the current framework provides an appropriate balance between costs and desired benefits. We believe that the systems of management controls provide reasonable assurance that the strategic business risks have been appropriately addressed. The quarterly review by management and the Board of Directors of these strategic business risks provides a regular review process to ensure mitigation strategies are in place to reduce these risks to acceptable levels.

The key strategic risks and mitigation strategies identified on the following pages are considered and incorporated into our corporate strategy, as outlined in this Service Plan, and into detailed operational plans.

Description of Risks:	Mitigation Strategies:
Objective: Improve Customer Perception	
• **Stakeholder Management** The risk that key stakeholders who influence customers hinder the ability to achieve ICBC's strategy and business model.	• We will seek ongoing consultation from stakeholders so that changes to enhance customers' experiences and perceptions of price/value are supported by partners and stakeholders. We are actively engaging our stakeholders and business partners to enhance a shared commitment to achieving common business objectives.
• **Privacy** The risk that customers' and employees' trust in ICBC will be diminished due to breaches by ICBC or business partners in safeguarding their personal information.	• ICBC has data security measures and policies in place governing the access and use of corporate data. The policies address ICBC's privacy obligations and include the responsibilities of employees with respect to access to, and handling of, customer information. • ICBC's Code of Ethics reflects its focus on protecting access to information. An annual review and completion of ICBC's Code of Ethics and Information Security tutorials, along with Privacy Practices & Responsibilities, are required for all employees and contractors. • Privacy considerations have been embedded within the governance and approval processes for all projects, including our Business Renewal project, so that privacy is considered early in and throughout the project life cycle.
Objective: Improve Employee Experience	
• **Workforce Planning** The risk that ICBC cannot deliver its core business or change initiatives due to alignment, capability, capacity, and readiness of its leaders and employees.	• As we are undergoing business renewal efforts over the next 3–5 years, we are also actively managing workforce capacity and readiness of our leaders and employees to support delivery of our core business and change initiatives. • Our business renewal efforts will improve our business processes so that it is easier for our employees to continue to meet customers' needs. • We will continue to focus on recruitment, compensation, training, and leadership development to attract, develop, and retain talent for the future. • We have refined our performance management program so that each of our employees is aligned to the successful achievement of our objectives.
Objective: Maintain Financial Stability	
• **Bodily Injury Claims Costs** The risk that insurance rates increase at a rate that is unacceptable to customers due to rising bodily injury claims costs.	• Strategies to address crashes and claims costs are a priority for ICBC and include improvements to claims handling processes, public awareness campaigns on high-risk driving, the transition to risk-based pricing and other road safety activities. • ICBC continues to develop and implement a number of strategies and initiatives to help address factors that are within ICBC's control with respect to managing bodily injury claims costs. The strategies are: improvements to claims handling, increased management focus on bodily injury claims, and improvements to business indicator reporting and data analysis. ICBC continues to build on these three strategies, refining existing programs and introducing new initiatives to ensure that the benefits from claims initiatives remain sustainable over the long term.
• **Financial Markets** The risk that market value of investments and/or investment income is negatively impacted by adverse changes in market credit or liquidity conditions, equity prices, interest rates or currency.	• ICBC's Investment Policy addresses ICBC's risk tolerance and investment goals, and specifies a long-term investment asset mix and fixed income duration consistent with these objectives. The policy is based on prudence and regulatory requirements, and provides guidelines for balancing the levels of risk and return in ICBC's investment portfolio. • ICBC follows a long-term strategy and diversifies its investment holdings to manage investment return fluctuations. • ICBC closely matches bond duration to its liabilities, which reduces ICBC's overall interest rate risk. • ICBC's Corporate Credit Policy manages credit risk from an enterprise-wide perspective.

Description of Risks:	Mitigation Strategies:
Other Significant Corporate Risks	
• **Business Renewal** The risk that ICBC does not deliver on the core capabilities of ICBC's business Transformation Program underway due to its size and complexity.	• ICBC has developed a comprehensive governance model to provide oversight to the business transformation underway. The model includes oversight by a sub-committee of the Board of Directors, appointing a third-party independent risk advisor to the Board, and internal reviews to monitor that the program continues to meet its stated objectives.
• **Technology** The risk that information technology solutions and services required to support the changing business environment cannot be delivered in a timely and cost-effective manner.	• We are developing long-term technology requirements to address key opportunities to meet our future business needs. • We are using proven methods, tools, and experienced technology partners to deliver technology solutions within the expected timeframe (e.g., principle of buying rather than custom-building solutions to speed deployments with 'out-of-the-box' functionality).
• **Access to Systems** The risk that system-dependent operations could be intentionally or accidentally compromised due to unauthorized access to and/or use of ICBC's systems/ data.	• An enterprise-wide Information Technology Security Program is in place, as well as the ICBC Code of Ethics, governing access and use of corporate data. • Annual completion of Privacy/Information Security tutorial was mandatory for all employees by Q4 2011. • Policies and procedures are in place to initiate, authorize, and grant access to ICBC systems and data by employees, as well as certain business partners (e.g., brokers) and other third parties (e.g., government ministries). • System access controls include layered defenses, encryption of data on portable media, and access granted on a 'least privilege' principle (and revoked when employees change positions), and strong passwords. • Security requirements are considered in the acquisition and implementation of any new software packages.
• **Business Interruption** The risk that operations cannot be maintained or essential products and services cannot be provided due to business interruption arising from workforce, physical and/or technical events.	• ICBC's business interruption risk is managed through three related programs: Emergency Response Program (safe building evacuations, search and rescue, etc.), Business Continuity planning (continued essential customer services during interruption), and IT Disaster Recovery planning (ICBC's Data Centre). • ICBC conducts an annual test of both the Business Continuity plans and the IT Disaster Recovery Program with improvements made by management to ensure a successful recovery program. • In order to provide a secure and future-stable environment for ICBC's Information Systems, ICBC successfully relocated its end of life Head Office data center to a new shared facility.
• **Catastrophic Loss** The risk that ICBC's capital strength is eroded in the event of a major disaster.	• In the event of losses resulting from catastrophes such as an earthquake, ICBC has financial protection through a reinsurance program that is reviewed and renewed annually. Losses experienced in excess of a specified amount will be covered by the reinsurance policy up to the policy limits. • In addition to protection against individual catastrophic events, the reinsurance program protects ICBC against abnormally large losses by limiting the amount for which it is liable in any single event and in any given year.

Corporate Strategy

ICBC's corporate strategy is unchanged from the previous year as we continue to work towards our vision of being BC's preferred auto insurer, providing protection and peace of mind.

The environment that we operate in is changing; however, we remain focused on building trust with our customers by delivering an improved customer experience and offering products and services that provide the value customers want. As we work towards becoming a more customer-centric company, we are improving business processes and systems to deliver a better customer experience.

ICBC's Transformation Program, which is one of the key enablers of our strategy, will renew our business processes and systems. We are progressing with multiple projects that will collectively play a key role in supporting ICBC's objectives by being more responsive to our customers and their needs. This will be supported by engagement of customers and business partners in our renewal effort to ensure any changes we make help us meet our goal of exceeding customer expectations. We are also making our insurance pricing more reflective of driver risk by working on a new pricing model that will benefit lower risk drivers. All of this will be supported by implementing technology across the company that will be a common foundation for all business areas, including new work tools for employees and business partners who are critical to our future success.

ICBC has enjoyed a number of years with very strong financial results. Policyholders have benefited from this strong financial performance — for the past four years, our rates have not increased. At the same time, it has also helped us to build our capital levels. As such, we have been able to set aside funds for the Transformation Program through the Optional side of our business.

Our net income 2011outlook is significantly lower compared to this time last year; something that is due to a combination of external factors including rising bodily injury claims costs and lower rates of return on our financial investments.

The most significant cost pressure to our business continues to be the cost of bodily injury claims. Bodily injury costs are a major challenge for the insurance industry as a whole, particularly due to the increases in severity trends over the past several years. ICBC's higher claims costs can be predominantly attributed to bodily injury claims costs growing at a much higher rate than anticipated. Managing the growth of bodily injury claims costs remains a key strategic focus for ICBC, and strategies include claims handling based on risk, increased management oversight, and road safety enhancements.

In past years, we've been able to rely on our investment income to help keep rates down but we can no longer do so to the same extent. The uncertain world economic outlook, low interest rate environment, and increasing claims costs put pressure on our financial results. We will continue to maintain a conservative investment philosophy and manage our insurance operations prudently.

We have also initiated a comprehensive internal financial review to look for ways that we can reduce current operating costs, and maintain future costs at these lower levels. While our operating costs remain low compared to others in the industry, our goal is to limit any growth year-over-year to within the rate of inflation. As we look for ways to reduce operating costs, we remain committed to providing the best coverage at the lowest possible price and the renewal of our technology, systems, and processes to better serve customers in the future.

As such, we continue to be focused on three key strategies under our three corporate objectives. These strategies represent core areas of focus for the work that is underway to achieve our corporate goal and objectives over the next three years.

Goal	
We must improve our customers' experiences and perceptions of us. We will do this by listening to, better meeting the needs of, and trusting our customers while maintaining low and stable auto insurance rates. To be successful, all of us must be empowered, engaged, and accountable for the actions we take to achieve this goal.	
Objective	**Strategies**
• Improve Customer Perception	• Understand our customers and exceed their expectations
• Improve Employee Experience	• Engaged, inspired, and confident leaders and employees
• Maintain Financial Stability	• Streamlined, efficient, and cost-effective systems and processes

Performance Management Systems

Our performance measures align to our corporate strategy, strategic goal and related objectives. Our strategic plan and performance against our plan are reported externally through the Service Plan and Annual Report.

In the setting of performance targets, one needs to consider ICBC's unique business model relative to other insurers in the P&C industry. Some of these unique traits include:

- Setting premiums to achieve and maintain our capital target rather than to maximize our return on capital;
- Operating exclusively within British Columbia under a full tort environment wherein the cost of settling a claim may be higher than in other jurisdictions that do not operate in the same system;
- Working under a mandate to provide automobile insurance to all drivers in BC;
- Establishing auto insurance rates that are not based on age, gender, or marital status; and
- Delivering a wide range of non-insurance services such as driver licensing, vehicle licensing and registration, and fines collection on behalf of the provincial government.

Due to this, we do not use industry benchmarks to set our corporate performance targets. However, we will use industry information for analysis and comparison purposes.

Our financial performance measures are derived from actual financial information, forecasted trends, and assumptions. Key corporate performance metrics such as the combined ratio, loss ratio, and expense ratio are analyzed against industry benchmarks and reported in the Annual Report.

Non-financial performance measures are generated by external sources. Independent firms are retained to conduct ongoing surveys of customers for the purposes of monitoring satisfaction and experience, as well as conducting an annual survey for the purpose of monitoring employee engagement. Other benchmarking studies focusing on specific areas of operation are also undertaken to support improvement in management practices internally.

Corporate performance measures are cascaded down to the respective divisions and down to individual performance plans as appropriate. This is accomplished through the alignment of divisional and individual accountabilities, measures, and targets to corporate strategy.

To review and monitor performance, we hold quarterly corporate performance updates with the executive and senior management. These updates include a review of all strategic performance measures, a forecast of year-end results, and a review of the corporate risk profile and potential issues impacting the corporate strategy. Divisions also report on their performance results and highlight business issues as part of this quarterly update.

The Audit Committee, composed of members of the Board of Directors, oversees the corporate risk management process and financial reporting. The committee meets no less than quarterly with management, our internal auditors, and representatives of our external auditors, to discuss auditing, financial reporting, and internal control matters. Beginning January 1, 2011, our financial statements are in accordance with International Financial Reporting Standards (IFRS) and are audited by our independent auditors on this basis.

Improve Customer Perception

Improving our customers' perceptions of ICBC is a key strategic focus, and we will achieve this with a commitment to understand what is important to our customers to exceed their expectations. In order to improve customers' perceptions, we will continue to maintain the high levels of customer satisfaction that we have achieved in the past, work on improving our customers' experiences, and continue to build trust with our customers. By improving how we get input from our customers and working on our relationships with our customers, we're creating a customer-centric business model that will influence all of ICBC's business changes going forward.

Customers have increasing expectations around price, choice, convenience, and service. Throughout 2012 – 2014 and beyond, we will be working to improve processes and efficiencies at each critical customer touch point. By delivering convenience and an improved customer experience, our customers' perceptions of ICBC should improve. This will include making processes (interactions) more hassle-free and transparent for our customers. We will be implementing an integrated claims system that will make our claims handling processes more efficient by streamlining processes, requiring less paperwork, and saving time for our customers. We will also introduce more choice in how customers deal with ICBC, including face-to-face, via telephone or the Internet, as well as faster access to service through our key business partners such as our network of Express Repair shops.

As a part of our long-term strategy, we are also working to provide customers with improved pricing. Through public engagement, we will obtain our customers input on a range of options being considered in how we set premiums for Basic vehicle insurance coverage. Customer perception of price/value will be enhanced through improvements in our pricing as we continue to move in the direction of driver-based pricing where premium rates are more reflective of driver risk and lower-risk drivers pay less and higher-risk drivers pay more.

In 2012, ICBC will continue to focus on improving driver safety and well-being in BC. We are committed to helping make roads safer and influence driving behaviour to reduce crashes, injury, and death. We will continue to partner with law enforcement and other stakeholders on intersection safety cameras and support enhanced enforcement through our *Impaired Driving* campaign, which raises awareness about the risks, consequences, and choices regarding this risky driving behaviour. We will also partner with local municipalities on road improvement projects and work to increase awareness of vehicle safety features among BC drivers.

We will focus on improving customer perception of ICBC by informing and educating customers about the services ICBC provides to customers, as well as subjects that they have interest in or currently have an incorrect understanding of. We will reach them through our external communication and marketing campaigns, icbc.com, and ongoing earned media, including social media. For example, the *Drive Smart* awareness campaign serves to remind drivers to remain safe, patient, courteous and alert while driving, and how speeding and rushing can affect driving abilities and decision making. On icbc.com, customers are also provided with information on how to raise concerns and have access to a fairness process within ICBC to ensure they are being treated fairly.

We will continue to work collaboratively with our partners and engage our key stakeholders to proactively improve customer relationships and their experience with our services. Ongoing community programs, including the United Way fundraising campaign and Giving Back to Communities, are other ways that ICBC cares for customers and local communities.

Summary Performance Measures

Strategy	Performance Measures	2010 Actual	2011 Outlook	2012 Target	2013 Target	2014 Target
Understand our customers and exceed their expectations	Insurance Services Satisfaction	97%	97%	93%	93%	93%
	Driver Licensing Satisfaction	94%	94%	93%	92%	92%
	Claims Services Satisfaction	89%	89%	85%	85%	85%

Performance Measures

ICBC measures customer service performance based on the percentage of satisfied customers for each major transaction type: insurance product purchase, driver licensing, and claims. The design of ICBC's measures and targets reflects the inherent differences of these three key transactions. An independent research firm is retained to conduct ongoing surveys of customers for the purpose of monitoring transactional satisfaction.

Insurance Services Satisfaction

Independent insurance brokers process over three million policies each year. The insurance services satisfaction measure represents the percentage of customers satisfied with a recent insurance purchase transaction and is based on surveys of approximately 3,600 customers over the course of a year. This measure is typically over 90% and indicates the positive relationship ICBC and its brokers enjoy with customers.

Based on results to date, the 2011 outlook is expected to be 97%; no change from 2010 actual results.

In the 2012 – 2014 period, we have set our target at 93%, which reflects historical satisfaction levels as well as the changes foreseen. We intend to maintain a high level of customer satisfaction while preparing for the renewal of technology and the changes to business processes associated with our Transformation Program.

Driver Licensing Satisfaction

Each year, ICBC conducts approximately 1.5 million transactions relating to the issuance of driver licences and driver exams. The driver licensing satisfaction measure is used to determine the percentage of customers satisfied with their transaction with ICBC, which includes renewing a licence, taking a knowledge test or undergoing a road test. This measure is weighted by the number of transactions for each type of service and is drawn from a sample of over 6,000 customers surveyed throughout the year.

The 2011 outlook for ICBC's customer satisfaction for driver licensing is 94%; no change from 2010 actual results.

For 2012, the target has been set at 93%, which is consistent with historical norms. For 2013 and 2014, ICBC anticipates that with the implementation of new initiatives, we will need more time to explain these changes to our customers. This may have a negative impact on wait times and customer satisfaction levels may decrease during this transition period.

Claims Services Satisfaction

Approximately 900,000 claims are processed each year through ICBC's call centre, claims centres and specialty departments such as, but not limited to, commercial claims and rehabilitation services throughout the province. The claims services satisfaction measure represents the percentage of customers satisfied with a recent ICBC claims transaction and is drawn from a sample of over 25,000 customers surveyed throughout the year.

Based on results to date, the 2011 outlook is expected to be 89%; no change from 2010 actual results.

For 2012 – 2014, ICBC expects that claims services satisfaction may be impacted by the implementation of a new claims management system and changes to business processes. The target of 85% has been set to reflect historical norms.

Improve Employee Experience

ICBC's corporate strategy hinges on the successful renewal of several major business systems and processes to enable a concentrated focus on customer needs. Making these changes requires the implementation of new roles and skills, organization design, and working environments for employees. All of this must be supported by a workplace that engages, inspires, and empowers our people, holds them accountable, and provides them with the necessary tools and support to deliver to their potential.

Among these supports is a strong commitment to employee training and development. In 2011, for the second year in a row, ICBC was named one of "BC's Top 50 Employers" in a third-party competition sponsored by major business media organizations — and one of the main reasons cited was ICBC's robust learning and development program. In addition to traditional classroom learning and support for outside education programs, ICBC is taking increased advantage of online learning technologies, offering employees access to hundreds of online courses.

ICBC's objective for improved employee experience includes bolstering workforce capability and capacity, and establishing "organizational readiness" to ensure an effective transition towards a more customer-centric business model. To that end, we have improved our ability to manage change by adopting a more structured, disciplined approach to change management. This is overseen by a centralized change management team that ensures enterprise-wide consistency in planning and implementing change to help employees adapt to new ways of working.

One of the ways ICBC is also working to improve employee engagement is to increase their involvement in business priorities. This face-to-face approach to sharing strategic information — especially important at a time of major system and process changes — will continue in 2012.

Building a culture of recognition and appreciation is another key factor in supporting an engaged workforce. ICBC is encouraging peer recognition as a way to nurture such a culture. The peer-driven DRIVE Council has been advising ICBC's CEO on ways to improve recognition; the first such suggestion, an annual employee recognition awards program, was successfully launched in 2011. Further recognition enhancements are planned for 2012.

ICBC also continues to value diversity in its workforce. In 2011, we began implementation of a diversity strategy that included a company-wide survey to establish a baseline picture of its current workforce composition. The goals of the strategy are to ensure that ICBC reflects the diverse communities it serves, and that it attracts the best talent by being welcoming and inclusive. Work in 2012 will include a review of recruitment practices to identify any barriers to employment, and developing targeted community outreach and recruitment initiatives to attract a broader spectrum of qualified candidates.

Summary Performance Measures

Strategy	Performance Measures	2010 Actual	2011 Outlook	2012 Target	2013 Target	2014 Target
Engaged, inspired, and confident leaders and employees	Employee Engagement	55%	54%	57%	N/A*	N/A*

* Employee engagement is an annual measure. Targets are not set beyond the current year.

Performance Measures

Employee Engagement

A successful employee engagement strategy helps foster a connection between employees, the work they do, and a belief that the company is socially responsible, offers meaningful recognition, rewards career growth, and enables innovative thinking and input into decision making in order to deliver outstanding customer service. Employee engagement is the willingness of employees to commit and to contribute to company success, along with increasing their emotional attachment to ICBC and intention to remain with the company.

ICBC's success in improving employee engagement is measured in part by using an employee opinion survey administered by a third party. The survey includes six engagement-related questions from which a score is rendered representing the percentage of respondents whose average score on those questions is 4.5 or greater on a scale of 1 to 6.

The employee opinion survey was sent to all ICBC full-time equivalent employees (excluding contractors) in the fall of 2011. The engagement score, at 54%, was just slightly under the target of 55% — not an unexpected result given the scope and pace of change in ICBC as we pursue our strategic goals. We remain committed to significantly improving our engagement score over the next few years.

ICBC's employee engagement results have been reviewed in context with a number of other internal indicators around performance, recruitment, and retention. Our "scorecard" to measure the employee experience is continually being refined.

Maintain Financial Stability

ICBC has enjoyed a number of years with very strong financial results. Policyholders have benefited from this strong financial performance: the average auto insurance premium our customers pay today, for those who purchase both Basic and Optional insurance from ICBC, is approximately the same as it was in 2008. Our net income 2011 outlook has fallen substantially due to increasing claims costs and diminishing investment returns. After four years of not having to increase our rates, we face a different reality today and have filed an application with BCUC to increase our Basic insurance rates for 2012. The majority of bodily injury costs reside on the Basic side of the business and this is the major contributor for increased rates. At the same time, we are decreasing our Optional insurance rates for next year and are able to do this because of fewer material damage claims and lower auto crime.

The most significant cost pressure to our business continues to be the cost of bodily injury claims. Bodily injury costs are a major challenge for the insurance industry as a whole, particularly due to the increases in severity trends over the past several years. Managing the growth of bodily injury claims costs remains a key strategic focus for ICBC and strategies include claims handling based on risk and complexity and increased management oversight, and road safety and loss prevention enhancements.

We have also initiated a comprehensive internal financial review to look for ways that we can reduce current operating costs and maintain future costs at these lower levels. While our operating costs remain low compared to others in the industry, our goal is to limit any growth year-over-year to within the rate of inflation. Our ability to keep operating costs low, means they are not contributing to any of the required rate increase for 2012.

As we look for ways to reduce operating costs, we remain committed to providing the best coverage at the lowest possible price and renewing our aging technology, systems, and processes to better serve and provide greater value to our customers in the future.

Summary Performance Measures

Strategy	Performance Measures	2010 [1] Actual	2011 [1] Outlook	2012 [1] Target	2013 [1] Target	2014 [1] Target
Streamlined, efficient, and cost-effective systems and processes	Minimum Capital Test [2]	210%	189%	Minimum 175%	Minimum 175%	Minimum 175%
	Combined Ratio	105.8%	109.6%	107.8%	106.3%	106.8%
	Loss Ratio	84.0%	86.8%	86.4%	85.8%	85.9%
	Insurance Expense Ratio	17.0%	17.2%	17.7%	17.4%	17.2%
	Transformation Program Expense Ratio	0.9%	0.9%	1.1%	1.1%	1.0%
	Non-insurance Expense Ratio	3.0%	3.1%	3.2%	3.2%	3.2%
	Expense Ratio (excluding DPAC) [3]	20.9%	21.2%	22.0%	21.7%	21.4%
	Investment Return (Market Return)	Benchmark + 0.60%	Policy Market Benchmark Return	Policy Market Benchmark Return	Policy Market Benchmark Return	Policy Market Benchmark Return

Notes

1. Financial information for all years 2010 to 2014 was prepared based on International Financial Reporting Standards (IFRS).
2. Minimum Capital Test (MCT) is based on the *Guidelines for MCT for Federally Regulated Property and Casualty Insurance Companies, No: A*, dated December 2010 issued by the Office of the Superintendent of Financial Institutions Canada. New Guidelines for MCT were issued October 2011, effective January 1, 2012. Pursuant to legislative change effective April 2010, ICBC transfers its Optional surplus capital to the Government of British Columbia on an annual basis.
3. Deferred premium acquisition costs (DPAC) are commissions and premium taxes related to unearned premiums that are deferred and amortized to income over the term of the related policies. An actuarial evaluation is performed to determine the amount allowable for deferral. The amount of the deferral is limited to the amount recoverable from unearned net Basic and Optional premiums. A premium deficiency exists when future claims and related expenses are expected to exceed unearned premiums. Premium deficiencies are recognized first by writing down the deferred premium acquisition costs with any remaining deficiency recognized as a liability.

Performance Measures

Minimum Capital Test (MCT)

MCT is an industry measure set by the Office of the Superintendent of Financial Institutions (OSFI) for federally regulated insurance companies across Canada. The MCT is used to determine whether a company has sufficient capital levels to protect policyholders from financial risk and provide long-term financial stability.

Pursuant to legislative change effective April 2010, ICBC now transfers its excess Optional capital to the Government of British Columbia on an annual basis.

The 2011 MCT outlook is forecast at 189%, as compared to the 2010 result of 210%. The MCT is lower due to a decrease in capital available as a result of the net loss in Basic insurance, the transfer of excess Optional capital to the government, accounting changes resulting from IFRS combined with a decrease in other components of equity resulting from lower unrealized gains.

The 2012 – 2014 MCT targets are set at minimum 175%.

Combined Ratio

The combined ratio is a key measure of overall profitability within the insurance industry. This measure is calculated as the ratio of all costs (claims costs, claims-related costs, administrative costs, acquisition costs, and non-insurance costs) to all insurance premium dollars earned. A ratio below 100% indicates an underwriting profit while a ratio above 100% indicates an underwriting loss. ICBC's combined ratio is typically higher than the industry average. This is partially due to ICBC's mandate to deliver non-insurance services on behalf of government and these costs are reflected in the combined ratio. Also, ICBC uses its investment income to reduce premiums for its customers rather than to generate a return for shareholders as private insurers do. As a result of lower required premiums, our combined ratio is higher.

The 2011 outlook for the combined ratio is 109.6%. This is higher than the 2010 actual of 105.8% mainly due to higher claims costs. The impact of increased claims costs to the combined ratio is an increase of approximately three percentage points.

Claims costs were mainly impacted by an increase in the number of reported injury claims and a continued increase in injury claim costs.

Premiums earned reflect the flow-through of rate adjustments from prior years. Overall, the outlook for 2011 premiums earned is expected to be a modest increase of 0.2%. This modest increase impacts the combined ratio, the loss ratio, and the expense ratio since insurance premium dollars earned is the denominator in all cases.

For the years 2012 – 2014, combined ratio targets reflect current expectations regarding claims cost trends and operating costs. Operating costs will be managed within inflation while also allowing for an investment in business renewal and replacement of aging technology. The premiums earned assumes required rate changes for both the Basic and Optional insurance businesses. Any proposed changes to Basic insurance rates are subject to regulatory approval.

Loss Ratio

The loss ratio is a key performance indicator within the insurance industry measuring profitability of the insurance product — the lower the percentage, the more profitable the product. This measure is calculated as the ratio of the total of claims costs and claims-related costs, including loss management costs, to total insurance premium dollars earned.

ICBC's loss ratio is typically higher than the P&C industry because our premiums are set to recover costs and to achieve and maintain capital targets. ICBC uses its investment income to offset rates for its customers, thereby allowing rates to be lower than they would be if ICBC had to generate an underwriting profit as private insurers do. As reflected in the expense ratio, we have lower relative operating costs and can pay more of each premium dollar towards claims and related costs; this results in a higher loss ratio. In addition, ICBC is also mandated to provide Basic insurance to all drivers in BC, including the category of high-risk drivers whose claims costs are proportionately higher. This results in a higher loss ratio for ICBC relative to those insurers who may limit their exposure to such business.

The 2011 outlook of 86.8% is higher than the 2010 actual of 84.0% primarily due to higher claims costs. Claims costs were unfavourable compared to the prior year mainly due to higher number of reported injury claims and increased claims costs.

Expense Ratio

The expense ratio is a standard industry measure for assessing the percentage of each premium dollar that goes to an insurer's expenses. This measure is calculated as the ratio of non-claims costs to total insurance premium dollars earned. It includes operating costs that are not directly related to servicing claims such as general administration, commissions paid to brokers, taxes paid on premiums written, product design (underwriting), our investment in new systems and processes, and non-insurance costs such as those associated with driver and vehicle licensing and vehicle registration. To enable comparisons with industry benchmarks, the expense ratio excludes the impact of one-time, non-recurring items.

ICBC's expense ratio consists of three key components: the insurance expense ratio, the Transformation Program expense ratio and the non-insurance expense ratio. Segregating expenses in this manner allows ICBC to better manage the costs of operating its insurance and non-insurance businesses, and to reflect the costs of technology renewal and changes to business processes associated with our Transformation Program.

The 2011 outlook expense ratio of 21.2% is higher than the 2010 actual of 20.9% mainly due to higher acquisition costs. Operating costs and Transformation Program expenditures were consistent with 2010 actual results.

In spite of ongoing operating cost pressures, ICBC's results are lower than other automobile insurers. The overall P&C industry expense ratio for 2010 was approximately 30.2%.[7] For insurers who predominantly write auto insurance, the ratio was about 28.9%.[8] ICBC's expense ratio is lower than the industry average due to its ability to achieve economies of scale, the benefits of integrated operations, and lower marketing, underwriting, acquisition and general administration costs. We continue to manage and control our costs by operating efficiently and reducing non-critical business expenditures where possible.

As part of its operations, ICBC incurs non-insurance expenses in providing driver licensing, vehicle licensing and registration, and fines collection on behalf of government. The non-insurance expense ratio represents the ratio of the operations and administration costs of ICBC's non-insurance business to total insurance premium dollars earned. The non-insurance expense ratio outlook, at 3.1%, is slightly higher than historical results. Non-insurance expenses have increased due to additional staff hired to address improved service levels and enhance management overview.

The 2012 – 2014 targets reflect higher expense ratios due to the reinvestment into our business through renewing our aging technology, and depreciation associated with capital expenditures from prior years. In addition, our overall expenses will be impacted by suppliers' increased costs and higher acquisition costs in the future years. ICBC strives to manage and control the increase in operating costs within inflation.

Investment Return

Investment income is typically a significant component of any insurer's overall net income and plays an important part in reducing the cost of insurance. ICBC investment assets arise from funds set aside for unpaid claims, unearned premiums, and retained earnings. At the end of 2011, ICBC's investment portfolio had a carrying value of approximately $11.5 billion. The portfolio is managed in accordance with the Statement of Investment Policy and Procedures. This policy establishes guidelines for ICBC to manage the level of risk and return in the investment portfolio. The majority of investments are held in the form of fixed income investments such as bonds. Equities are held to enhance returns. The asset mix was developed with the Corporation's liability profile and cash flow needs in mind to cover future claims payments, whereas the investment income generated is used to reduce the premiums that would otherwise need to be collected from our policyholders.

Investment returns, which incorporate both change in market value of assets and income generated, are closely monitored. Individual asset class returns are measured relative to the performance of standard market benchmarks. As well, the return of the overall portfolio is measured against a policy benchmark, calculated as the average of individual asset class benchmark returns and weighted according to the portfolio's strategic asset mix. Asset class benchmarks and strategic asset mix are outlined in the ICBC Statement of Investment Policy and Procedures.

Given the heavy weighting in fixed income instruments, the ICBC investment portfolio is subject to interest rate risk. An increase in the interest rate would decrease the market value of fixed income holdings. However, ICBC's claim liabilities would also decrease as a result of a higher discounting rate used. To mitigate interest rate risk, the duration of ICBC bonds has been reduced and closely matches the duration of claim liabilities. ICBC's investment income is very sensitive to the general level of interest rates such that an extended period of low interest rates will have a negative impact on future investment income.

ICBC's fixed income portfolio is subject to credit risk. Credit risk will remain heightened as the economy works to recover from its recent downturn. To mitigate this risk, it is ICBC's investment policy to hold government and investment grade bonds. ICBC also performs its own internal credit analysis. ICBC holds no exposure to European sovereign debt.

Economic growth is expected to be very modest in the upcoming year. Interest rates are expected to remain at historically low levels. The turbulence in the capital markets will likely continue, particularly in the equity and foreign exchange markets given the uncertainty around the strength of the economic recovery and European debt concerns. ICBC is vulnerable to deterioration in equity markets and to currency fluctuations. Nevertheless, these risks are not unique to ICBC and are proactively managed by the Investment Department.

The 2012 – 2014 investment portfolio performance targets are set at the policy market benchmark return, net of fees and operating expenses. For performance measurement purposes, ICBC does not forecast the policy market benchmark return as it is the result of market forces beyond the company's control.

An external performance measurement service independently calculates returns at the portfolio, asset class, and investment manager levels.

[7] MSA Benchmark Report, Property & Casualty, Canada 2011 (Expense Ratio for Total Canadian Property Casualty Industry (including Lloyd's but excluding ICBC and Saskatchewan Auto Fund)
[8] MSA Benchmark Report, Property & Casualty, Canada 2011 (Expense Ratio for Auto Writers excluding ICBC and Saskatchewan Auto Fund)

Strategy Summary

ICBC's current objectives and targets on its high-level strategies are contained in the following table.

Objective	Strategy	Measures	Outlook [1]	Target		
			2011	2012	2013	2014
Improve Customer Perception	Understand our customers and exceed their expectations	Insurance Services Satisfaction	97%	93%	93%	93%
		Driver Licensing Satisfaction	94%	93%	92%	92%
		Claims Services Satisfaction	89%	85%	85%	85%
Improve Employee Experience	Engaged, inspired, and confident leaders and employees	Employee Engagement [2]	54%	57%	N/A	N/A
Maintain Financial Stability	Streamlined, efficient, and cost-effective systems and processes	Minimum Capital Test	189%	Minimum 175%	Minimum 175%	Minimum 175%
		Combined Ratio				
		• Claims & Claims-related Expenses & Insurance Expenses	106.5%	104.6%	103.1%	103.6%
		• Non-insurance Expenses	3.1%	3.2%	3.2%	3.2%
		Total	109.6%	107.8%	106.3%	106.8%
		Loss Ratio	86.8%	86.4%	85.8%	85.9%
		Expense Ratio				
		• Insurance Expense Ratio	17.2%	17.7%	17.4%	17.2%
		• Transformation Program Expense Ratio	0.9%	1.1%	1.1%	1.0%
		• Non-insurance Expense Ratio	3.1%	3.2%	3.2%	3.2%
		Total	21.2%	22.0%	21.7%	21.4%
		Investment Return	Policy Market Benchmark Return	Policy Market Benchmark Return	Policy Market Benchmark Return	Policy Market Benchmark Return

Notes
1. Financial information for all years was prepared based on International Financial Reporting Standards (IFRS).
2. Employee engagement is an annual measure. Targets are not set beyond the current year.

Alignment with Government's Letter of Expectations

The 2012 Government's Letter of Expectations affirms ICBC's mandate to provide Basic and Optional vehicle insurance to BC motorists, provide driver licensing and vehicle licensing and registration, and administer violation tickets and provide fee and fines collection services on behalf of the Province.

In addition to outlining government's general reporting framework and general directions, the 2012 letter also provides specific direction to ICBC, including the following:

Government's Letter of Expectations	ICBC Alignment
Transformation Program	
• Continue to invest in ICBC's systems, processes, and products as part of a Transformation Program to meet increasing customer expectations, better ensure the reliability of systems and improve options, and implement more streamlined processes for employees that will improve customer service. • Conduct province-wide public engagement to gather input on a range of options for future Basic risk- sharing rate changes, the results of which will be shared with government and the public.	• ICBC has begun its multi-year Transformation Program, which includes multiple projects that will collectively help ICBC improve services and options for customers and will provide employees with the tools they need to be successful and to be able to better meet customer expectations.
Capital Management Frameworks	
• Comply with the capital management frameworks for Basic and Optional insurance established by government. • ICBC will continue to review controllable costs in order to achieve the cost reduction targets agreed to by the Treasury Board.	• ICBC is complying with the revised capital management frameworks for Basic and Optional insurance established by the government.
Road Safety Laws	
• Support implementation of government's new impaired driving and motorcycle safety laws.	• ICBC works with government and stakeholders on road safety and supports these initiatives through public education and awareness strategies.
Climate Change	
• Contribute to the BC Provincial Government's climate action objectives and comply with the requirement to be carbon neutral in accordance with the *Greenhouse Gas Reduction Targets Act*.	• ICBC established the 2007 baseline of the company's environmental footprint and implemented government's SMARTTOOL to track and report on the company's greenhouse gas emissions. • ICBC has met the requirement to be carbon neutral by 2010. • ICBC continues to implement initiatives to reduce our carbon footprint, e.g., continuing energy retrofits, further switch to 100% recycled office paper, building the new Driver Licensing Centre to LEED Gold standards, and a 10-month internal "Curb the Carbon" campaign to encourage employees to help reduce greenhouse gas emissions. • ICBC has sponsored campaigns that help drivers understand how good driving practices can reduce fuel costs, lower carbon emissions, and improve road safety.

Government's Letter of Expectations	ICBC Alignment
Other Initiatives	
• Ensure government is advised in advance of the release of information requests under the *Freedom of Information and Protection of Privacy Act*.	• ICBC works with the Government of British Columbia through a process for *Freedom of Information and Protection of Privacy Act* requests that meets Government needs and does not delay response times.
• Comply with the international Payment Card (PCI) Data Security Standards.	• ICBC is fully compliant with the international Payment Card (PCI) Data Security Standards.
• Continue to support government's policy objectives with respect to off-road vehicles, BC Services Card, climate action, and other road safety initiatives.	• ICBC is working with government on off-road vehicles, BC Services Card, and road safety-related initiatives, and legislative changes.
Administration of Government Initiatives	
• Work with government to prepare an annual plan for all ICBC projects that support government initiatives for approval by Treasury Board.	• ICBC is working with the provincial government to establish an annual planning process, including an annual plan, for all ICBC projects that are implemented in support of government initiatives.
Governance and Administrative Framework	
• Ensure that corporate priorities reflect government's goals.	• ICBC continues to align corporate priorities with government's goals.
• Comply with government's requirements for Crown corporations, including reporting and information-sharing, Board appointment processes, *Public Sector Employers Act* and related requirements, rules related to lobbyists, etc.	• ICBC continues to comply with the Government of British Columbia's guidelines and directions for Crown corporations.

Any additional direction will be incorporated throughout the year and reported in the Annual Report.

Summary Financial Outlook

The financial forecasts take into consideration ICBC's plans to address the key strategic issues and risks facing the organization and changes in the external environment. Based on these plans, planning assumptions (see next page) are developed and are used to develop the financial forecasts below.

The net income outlook for 2011 is expected to be $140 million, as compared to the 2010 actual of $372 million. The decrease in net income is primarily due to higher claims costs, lower investment income, and higher acquisition costs (DPAC).

Claims costs were higher than prior year by $114 million due primarily to higher number of reported injury claims and increased claims costs. As a result of higher claims costs, the DPAC adjustment was higher than prior year by $29 million due to lower deferrable expenses allowed.

Investment income decreased by $89 million primarily due to an impairment in the equity portfolio and a decrease in net realized bond gains.

Throughout 2012 – 2014, ICBC will continue to work on the Transformation Program in order to renew our business and replace aging technology. This multi-year initiative will improve our customers' experiences by better meeting their needs, and enable our employees by putting the right systems and processes in place to better serve our customers. The forecast expenditures reflect current estimates and planning assumptions.

The forecast for 2012 – 2014 is based on ICBC's status quo business model and reflects current expectations of claims costs trends and investment market conditions. Based on current observations, claims costs are expected to be higher based on longer term claims cost trends. Investment income is forecast to be lower than historical results due to lower interest rates. Capital expenditures, primarily consisting of Transformation Program costs and the ongoing renewal of information technology and facilities, will fluctuate in the forecast period. The increase in operating expenses will be managed and controlled within inflationary levels and as per contractual agreements with external parties. Premiums earned will be impacted by changes in the Basic insurance rates, which are subject to regulatory approval. For the purpose of this forecast, required rate changes are assumed for both the Basic and Optional insurance businesses.

$ Millions[1]	2010 (Actual)	2011 (Outlook)	2012 (Forecast)	2013 (Forecast)	2014 (Forecast)
Premiums earned	$ 3,667	$ 3,674	$ 3,766	$ 3,925	$ 4,015
Service fees	55	50	51	51	52
Investment income	530	441	390	426	451
Total revenue	**4,252**	**4,165**	**4,207**	**4,402**	**4,518**
Claims incurred (including prior years' claims adjustments)	2,752	2,866	2,928	3,034	3,110
Claims services and loss management	330	321	328	334	340
Insurance operations expenses	176	177	193	206	206
Transformation program	35	32	42	42	39
Acquisition costs (including DPAC adjustment)	477	517	449	432	467
Non-insurance expenses	110	112	121	124	127
Total expenses	**3,880**	**4,025**	**4,061**	**4,172**	**4,289**
Net income	**372**	**140**	**146**	**230**	**229**
Other comprehensive income (loss)					
Net change in available-for-sale financial assets	67	(244)	44	(33)	(45)
Pension and post-retirement benefits actuarial loss	(92)	(68)			
Total comprehensive income	347	(172)	190	197	184
Total equity — beginning of year	3,428	3,199	2,926	2,935	2,967
Transfer of excess Optional capital to the Government of British Columbia	(576)	(101)	(181)	(165)	(151)
Total equity — end of year	**3,199**	**2,926**	**2,935**	**2,967**	**3,000**
Represented by:					
Retained earnings — end of year	2,683	2,654	2,619	2,684	2,762
Other components of equity	516	272	316	283	238
Total equity — end of year	**$ 3,199**	**$ 2,926**	**$ 2,935**	**$ 2,967**	**$ 3,000**
Capital expenditures[2]	**$ 44**	**$ 86**	**$ 101**	**$ 98**	**$ 69**
Long-term debt	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**

Notes

1. Financial information for all years 2010 to 2014 was prepared based on International Financial Reporting Standards (IFRS).
2. Major categories of capital expenditure include: facilities (land, building, and leasehold), vehicles, furniture and equipment, IT systems (computer equipment and software). Looking ahead, ICBC expects an increase in capital expenditure in the IT systems category as critical business systems are renewed and in the facilities category as the company maintains or replaces aging infrastructure.

Operating Costs by Nature

$ Millions	2010 (Actual)	2011 (Outlook)	2012 (Forecast)	2013 (Forecast)	2014 (Forecast)
Premium taxes and commission	$ 472	$ 483	$ 498	$ 509	$ 516
DPAC adjustments	31	60	(22)	(49)	(20)
Salaries and employee benefits	450	446	461		
Road improvements and other traffic safety programs	35	34	33		
Building operating expenses	32	32	33		
Professional and other services	42	37	44	678*	683*
Office administration	19	19	18		
Computer costs	19	23	24		
Depreciation and amortization	14	18	30		
Other expenses	14	7	14		
	$ 1,128	**$ 1,159**	**$ 1,133**	**$ 1,138**	**$ 1,179**

* Operating cost targets are not planned in detail beyond the current year but are estimated based on inflationary increases.

Assumptions

- Based on the current activity and investment market conditions, changes to planning assumptions pertaining to premiums and investment returns have impacted future years' forecasts.
- Prior years' claims reflect changes in the discounted value of unpaid claims.
- The outlook is based on the status quo business model and the company's expected investment in the Transformation Program.
- For policy years 2012 to 2014, required rate changes are assumed for both the Basic and Optional insurance businesses. Any proposed changes to Basic insurance rates are subject to regulatory approval.
- Investment income as shown includes the expected interest, dividends, other income, and realized gains/losses from the investment portfolio.
- These results reflect the overall operations of the business including Basic and Optional insurance and non-insurance activities.
- Claims incurred reflect current claims trends, vehicle population growth, and inflation.
- Driver Penalty Point Premiums were partially replaced by Driver Risk Premiums in 2009. The amount of Driver Penalty Point Premiums and/or Driver Risk Premiums included in the forecast is based on current estimates.

Forecast Risks and Sensitivities

Premiums

- 1% fluctuation means $37 – $40 million in net premiums.

Claims

- 1% fluctuation means $29 – $31 million in claims costs.
- 1% fluctuation in the unpaid claims balance means $62 – $72 million in claims costs.

Investments

- 1% fluctuation in return means $114 – $122 million in investment income.
- 1% change in investment balance means $4 – $5 million in investment income.

Market share

- 1% change in market share represents a $4 – $6 million impact on net income.

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ADDITIONAL INFORMATION

Additional information about ICBC is available at www.icbc.com

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